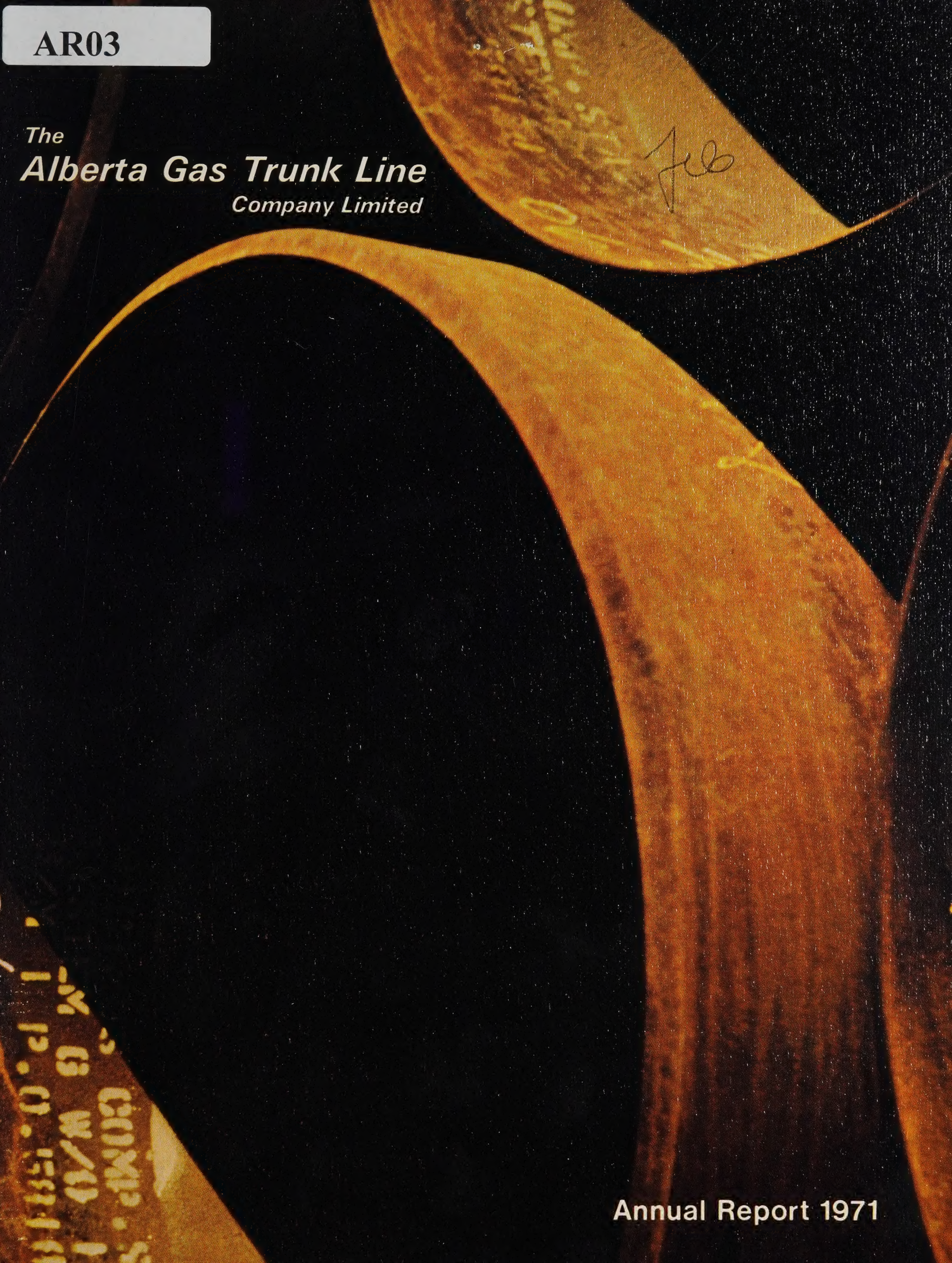
The Alberta Gas Trunk Line Company Limited



Annual Report 1971

The
Alberta Gas Trunk Line
Company Limited

Incorporated by Special Act under the Laws of Alberta

Directors

Albert T. Baker
President
Glenbow Alberta Institute
Corporation Director

James E. Baugh
Vice-President
Exploration-Production
Petrofina Canada Ltd.

Senator The Hon. Ernest C. Manning, P.C., C.C.
President
M. & M. Systems Research Ltd.

John E. Maybin
Chairman
Canadian Utilities, Limited

John C. Mayne
Corporation Director

David E. Mitchell
President and Chief Executive Officer
Great Plains Development Company of Canada Ltd.

L. Merrill Rasmussen
President
Pacific Petroleums Ltd.

Officers

John C. Mayne
Chairman of the Board

S. Robert Blair
President and Chief Executive Officer

Albert T. Baker
Vice-President

Gordon W. Walker
Vice-President

D. Howard Hushion
Vice-President

Walter J. Hopson
Vice-President and Secretary

William J. Deyell
Vice-President

Robin J. Abercrombie
Vice-President

F. A. Richard McKinnon
Treasurer

Adrian Smith
Comptroller

Company Offices

Head Office
505 - 2nd Street S.W.
P.O. Box 2535
Calgary, Alberta T2P 2N6

Calgary Service Centre
7210 Blackfoot Trail S.E.
Calgary, Alberta

Calgary Works Department
2611 - 58th Avenue S.E.
Calgary, Alberta

Edmonton Service Centre
Cameron Iron Works Building
10401 - 51st Avenue
Edmonton, Alberta

District No. 1 Headquarters
Calgary Service Centre

District No. 2 Headquarters
Brooks, Alberta

District No. 3 Headquarters
Edson, Alberta

Transfer Agents and Registrars

CLASS "A" COMMON SHARES
National Trust Company, Limited
Montreal, Toronto, Winnipeg, Calgary, Edmonton and Vancouver and Canada Permanent Trust Company, as agent for National Trust Company, Limited in Regina

PREFERRED SHARES SERIES C AND D
Crown Trust Company
Montreal, Toronto, Winnipeg, Calgary and Vancouver

Stock Exchange Listings

CLASS "A" COMMON SHARES
Toronto Stock Exchange
Montreal Stock Exchange
Calgary Stock Exchange

PREFERRED SHARES SERIES C AND D
Toronto Stock Exchange
Calgary Stock Exchange

Auditors
Clarkson, Gordon & Co.

Solicitors
Howard, Moore, Dixon, Mackie & Forsyth

Contents

Highlights

	1971	1970	Increase (Decrease) Per Cent
FINANCIAL			
(The 1970 figures have been restated from those previously reported to reflect revision in rate of return)			
Operating revenues	\$ 56,351,000	\$ 45,469,000	23.9
Operating profit	\$ 29,907,000	\$ 23,970,000	24.8
Net income	\$ 11,399,000	\$ 9,982,000	14.2
Dividends on preferred shares	\$ 1,826,000	\$ 2,143,000	(14.8)
Net income applicable to common shares	\$ 9,573,000	\$ 7,839,000	22.1
Net income per common share			
On average shares outstanding	\$ 2.63	\$ 2.35	11.9
On fully diluted basis	\$ 2.54	\$ 2.29	10.9
Dividends paid per common share	\$ 1.50	\$ 1.50	
Average common shares outstanding	3,646,000	3,342,000	9.1
Additions to plant	\$ 60,892,000	\$ 82,808,000	(26.5)
Investment in plant (cost)	\$463,761,000	\$404,003,000	14.8
Investment in plant (net)	\$398,622,000	\$348,384,000	14.4
Average rate base	\$355,159,000	\$294,766,000	20.5
Average rate of return	8.42%	8.13%	3.6
OPERATING			
Miles of pipeline in service	3,493	3,246	7.6
Compression horsepower	315,035	280,555	12.3
Annual throughput (MMcf)	1,435,735	1,259,337	14.0
Maximum day throughput (MMcf)	4,701	4,337	8.4
Average day throughput (MMcf)	3,934	3,450	14.0

Report to Shareholders

Alberta Service Expansions

The 1971 program for construction of new gas pipeline plant by the Company was reduced as a consequence of the decision of the National Energy Board that there was no current exportable surplus of gas in Canada. This decision caused refusal of the 1971 federal export applications of our customers, Consolidated Natural Gas Limited, Alberta and Southern Gas Co. Ltd. and Canadian Montana Pipe Line Company. A result was reduction of the Company's new plant program from an original estimated total of $111 million to an actual expenditure of $40 million.

During the year the Company also purchased a 297-mile northern oil pipeline from Peace River Oil Pipe Line Co. Ltd., and began its conversion to natural gas service. The purchase was supported by a commitment by Alberta and Southern Gas Co. Ltd. for transmission services for northern gas which is expected to be available for future export. The pipeline purchase transaction, including allowances for conversion costs, added approximately $30 million to the total new capital commitment in 1971, of which approximately $21 million was spent before the end of the year, bringing the year's capital expenditures to $61 million.

Looking forward at 1972, the Company again sees a situation in which if all of the additional gas supply which has been contracted for sale by Alberta producers would proceed to market on schedule, the capital cost of the Company's 1972 pipeline construction program would be estimated at $100 million. However, it appears that gas which was contracted for sale to United States markets, but calculated by the National Energy Board to be needed in Canada, will be deferred to later commencement of production. The resulting lag in expansion of operations in Alberta production areas, including the Company's services, is expected to reduce this year's construction program, probably to the order of $50 million.

There are a number of industry developments which can have substantial effects on the extent and speed of future growth of the Company's operations. Some of these will be discussed in other parts of this report.

One such development which can have an immediate and direct effect on growth commencing in 1972 is the Company's advancing of integrated gas gathering service proposals on a tariff basis in new gas supply areas, which could increase the pipeline and compressor construction program for 1972 and subsequent years by several million dollars per year.

An event in 1971 which was a sharp disappointment at the time was the May decision of the Alberta Public Utilities Board ordering a reduction in the rate of return component of the Company's rates from 8¾% to 8¼% for the twelve months ended June 30, 1971.

As matters moved subsequently, it was observed that features of the Public Utilities Board's conclusions were encouraging with respect to setting of future rates and charges. Following negotiations with customers, the Company reset the rate of return component to 8¾% commencing September 1, 1971. Later decisions on rates in other principal regulatory jurisdictions in Canada have appeared relatively favourable.

Design, Construction and Operation Economies

Under the heading "Technology" on page 4, there are described a number of innovations which have been carried out over the years in the Engineering and Construction Division and in the Operations Division.

One important new technique, the automatic line welding of large diameter pipe in the field, was advanced considerably in our 1971 construction program. The benefits of economy, uniform quality and use of unskilled local labour are expected to be most useful for future projects, including Arctic pipeline projects.

Board and Management

The Board of Directors continued throughout 1971 to comprise: Mr. J. C. Mayne, the Chairman; and Mr. A. T. Baker, appointed by the Lieutenant Governor in Council of the Province of Alberta; Messrs. D. E. Mitchell, J. E. Baugh and L. M. Rasmussen, elected by producers of natural gas; Senator The Hon. E. C. Manning, elected by shipper customers of the Company; and Mr. J. E. Maybin, elected by utility companies.

During the year, two new vice-presidents were appointed.

One is Mr. W. J. Deyell, who in his 12 years with the Company has served as Chief Engineer and as Manager of Operations. Mr. Deyell heads the Operations Division, which in terms of manpower and of operating expenditures controlled is the largest of our divisions.

The other new Vice-President is Mr. R. J. Abercrombie, who joined the Company in 1970 from the petroleum industry. He is responsible for environmental protection research, economics and other project studies and administrative departments.

Mr. D. H. Hushion continued as Vice-President in charge of the Engineering and Construction Division, which carries out the design and manages the installation of the Company's construction projects and controls its principal capital expenditures.

Mr. W. J. Hopson continued as a Vice-President and in October, 1971 was appointed Secretary of the Company, following the resignation of Mr. J. M. Ballachey. Mr. Hopson was succeeded as Treasurer by Mr. F. A. R. McKinnon, who has served 11 years with the Company including one year as Assistant Treasurer.

Mr. G. W. Walker continued in 1971 to be a Vice-President and to direct the Gas Arctic Division which is working entirely on construction engineering and management planning, field surveys and test site operations on behalf of the Gas Arctic Systems Study Group.

The management team was also strengthened during the year by the recruiting of several persons having experience in other parts of the industry at managerial level and by promotion of members of the Company's senior professional staff to middle management responsibilities. The strengthening program will continue.

In March, 1972 the Board of Directors approved revisions to the Company's employee benefit programs which will bring coverage of insurance and benefits up to date with progressive standards in the industry and will make a contributory savings plan available to employees.

Major Developments in Gas Industry

A number of developments in the industry indicate that the middle years of this decade should be an unusually exciting period, requiring comprehensive planning and then offering much opportunity for Canadian companies ready to contribute leadership.

There is the prospect of applications for authority to build the natural gas artery from the northwestern Arctic, which artery is expected to be the largest pipeline project ever undertaken.

There are prospects of major pipeline developments in other areas of the Arctic and sub-Arctic in North America.

There are procedures for review of energy marketing and pricing policies at both provincial and federal levels, with particular emphasis on natural gas. From such review, new practices may evolve in the industry.

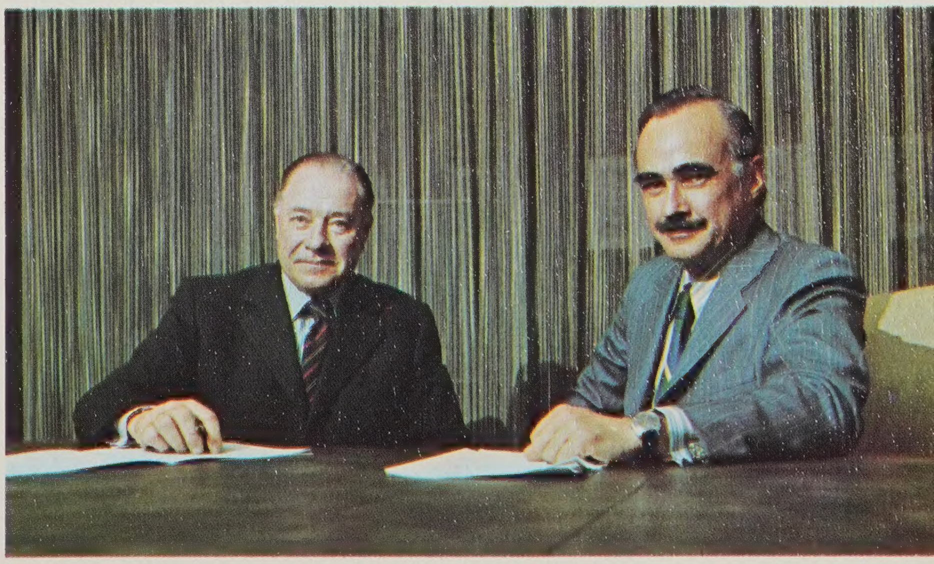
There is need for continuing examination and improvement of the ways in which components of the Canadian gas pipeline industry can work together to encourage petroleum exploration and gas field development, provide economical services and achieve greater prosperity for the companies themselves.

Your Company is pursuing vigorously the roles which it believes to be best within these developments.

J. Maynne   S. R. Blair

Chairman of the Board   President and Chief Executive Officer

Calgary, Alberta
March 17, 1972



Construction

Plant expansion during 1971 was noteworthy because of the nature rather than the scale of new installations. For example, another 74 miles of 42-inch pipe were constructed, and a new 20,000-horsepower centrifugal compressor unit is now in service at the Clearwater compressor station.

The addition of this unit, one of the largest of its kind, represents 58% of the 34,480 compression horsepower added to the Company's system during 1971. It also provides a measure of the Company's growth in that by itself it almost equals the system total of compression horsepower in 1963.

With the 1971 additions, the Company now has 200 miles of 42-inch line in service. The 42-inch mileage added during 1971 was 30% of the 1971 construction program, which involved a total of 247 miles of new line.

The line and compression power added during the year gives the Company a system with 3,493 miles of line and 315,035 compression horsepower. This does not include the 297 miles of 20-inch line purchased during 1971 from Peace River Oil Pipe Line Co. Ltd., which at the year-end was being converted to natural gas service and was expected to begin carrying gas in the spring of 1972.

The 1971 expenditure on new plant was $40 million. This included $21 million for main line additions, $7 million for main line compressor stations, $10 million for lateral pipeline and the necessary compression facilities, and $2 million for measurement equipment, quality control installations and other items. Purchase and conversion of the Peace River oil pipeline in 1971 totalled an additional $21 million in expenditures for the year.

These expenditures brought the Company's total investment in plant to $464 million.

Technology

The technological achievements of 1971 stand out even against the background of the succession of technological advances which form an important part of Alberta Gas Trunk's history.

Over the years since the Company was formed in 1954, a number of "firsts" have been achieved through the initiative and interest of professional and technical staff and a willingness to experiment and innovate in the hope of finding ways to do things ever better, with encouragement from management.

Many of the items were important at the time although some of them may not sound impressive in terms of today's pace of advance. Alberta Gas Trunk was, for example, the first company in Canada to practise topsoil conservation in pipeline construction. It was also the first to revegetate pipeline right-of-way in forested areas by seeding the disturbed soil to grass.

These went largely unnoticed at the time, outside the pipeline industry. Today it is news, and the subject of lively discussion, when these practices are not followed by pipeliners.

Many people nowadays tend to assume that pipelining has always been carried on during the winter, but Alberta Gas Trunk carried out the first winter installation of large diameter pipe, as recently as the winter of 1965-66 (70 miles of the 30-inch Edson main line).

The Company also pioneered winter hydrostatic testing of pipelines, which experience has already proved of great value in the planning of the proposed Gas Arctic pipeline.

Automatic welding of large diameter pipe in the field; an industry "first" for the Company witnessed by a group of visiting legislators from Alaska.

In 1970, Alberta Gas Trunk installed 125 miles of 42-inch pipe, the first in Canada.

In 1971, no fewer than four major technological advances were recorded. First of all, 74 miles of 42-inch pipe were welded automatically. This was in fact a triple first: the first pipeline project in Canada to be welded automatically, the largest in the world to be welded automatically and the first in the world for which automatic welding was used on material with a yield strength of 70,000 pounds per square inch.

To make this possible, a number of innovations, adaptations and modifications had to be made by the Company, the contractor and the pipe manufacturer. Part of the successful result was a high number of welds per day and a very low rate of weld rejection. Many aspects of this project have attracted wide attention throughout the industry.

The 7.4 miles of S-70 grade pipe installed as the final section of this project forms the first pipeline in the world to use spiral weld pipe of 70,000 p.s.i. specified yield strength.

D. H. Hushion, Vice-President
D. A. White, Assistant Manager, Engineering
J. R. Jameson, Supervising Engineer
R. M. Walters, Manager, System Planning

Also during 1971 Alberta Gas Trunk became the first pipeline operator in Canada to install a 20,000-horsepower centrifugal compressor unit driven by a gas turbine. Such units are expected to lead to further economies in gas transmission, since the ratio of fuel volume to volume moved is relatively low when a large compressor unit of this type is used.

Finally, conversion of the 297-mile, 20-inch oil pipeline in northern Alberta to natural gas service is a first in Canada in terms of the length and size of line involved.

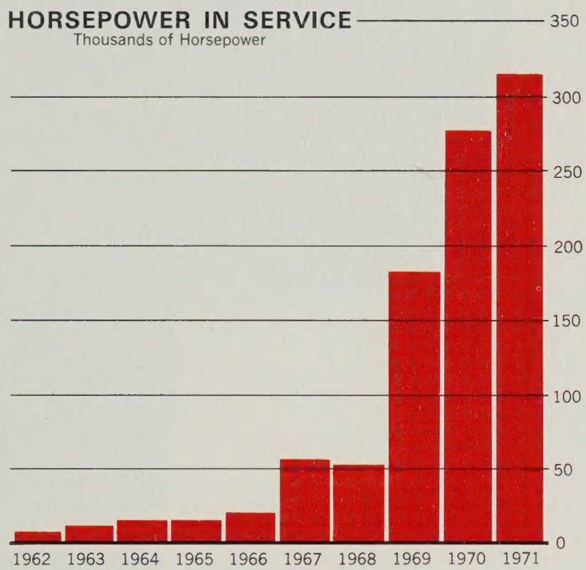
Another five technological advances which the Company expects to achieve during 1972 were actually started during 1971.

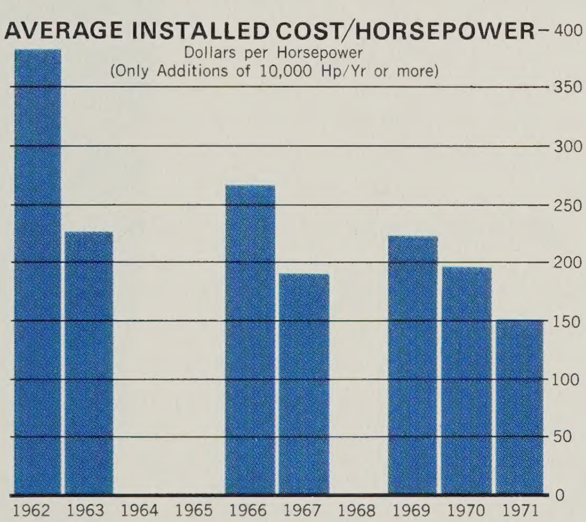
One, already installed, involves the first known Canadian use of 24-inch modulating ball valve regulators, plus the design and construction by Alberta Gas Trunk of a digital flow controller to modulate these valves. This system was designed to control the total throughput to Trans-Canada Pipe Lines Limited at the Empress stripping plants of Dome Petroleum Limited and Pacific Petroleums Ltd.

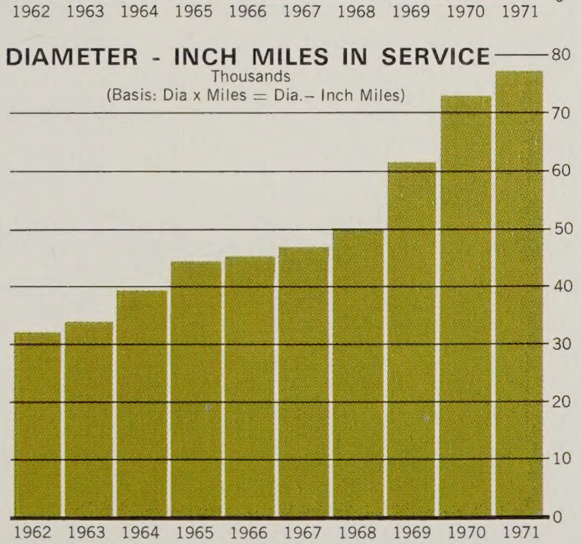
At the end of the year, the Company was preparing to commission a remote supervisory control unit to be controlled by a digital computer. This application of computer power to the Company's system is unique in the Canadian gas industry.

Within a few months after that installation becomes operative, Alberta Gas Trunk expects to commission a compressor station control system which will be actuated by a programmable digital controller. This is believed to be the first such computer application in the petroleum industry although the use of such controllers is now commonplace in automobile assembly plants.

These two applications of computer science have led the Company to investigate the use of a direct digital control valve originally developed in



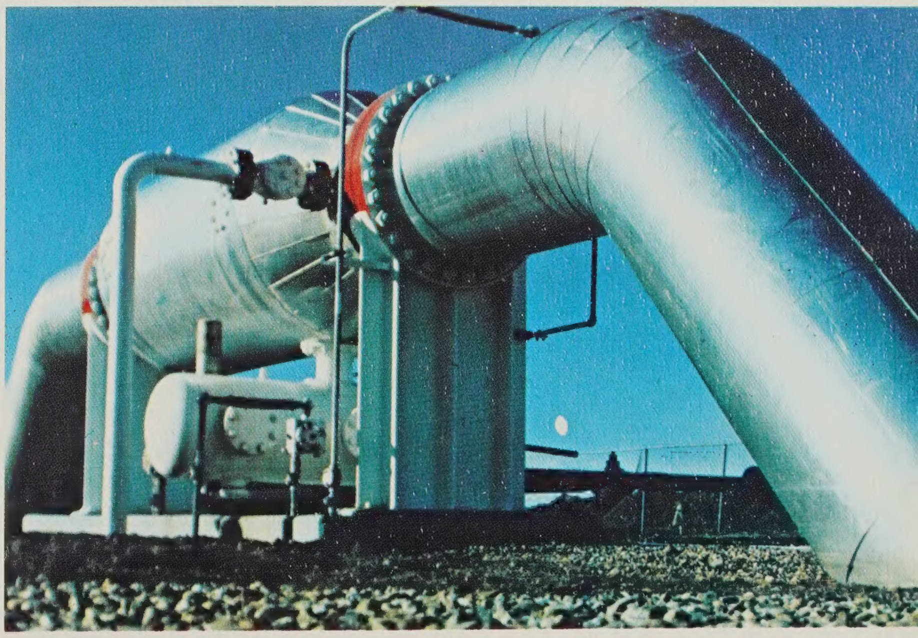




the United States aerospace program. This unique valve is attractive because of speed and computer compatibility, and the Company hopes to carry out some basic application research by operating the valve as a fuel regulator for a gas turbine.

Finally, the Company plans to commission a seven-colour cathode ray tube display system in its gas control centre. This installation will enable a gas controller to call up tables and graphs containing systems data for viewing on a large screen. This type of system is becoming accepted as a dispatch aid in the industry but a system of such capability has not, to Alberta Gas Trunk's knowledge, been installed previously in any gas pipeline in Canada.

Still other advances are at various stages of study, research and planning, and the Company looks forward confidently to a continuation of success in the improvement of pipeline technology.



Clearwater Compressor Station — site of the new 20,000 h.p. unit installed in the system during 1971.


Zama
Westcoast Transmission Co. Ltd.
Lesser Slave Lake
Marten Hills
Gold Creek
Flat Lake
Judy Creek
Kaybob
Simonette
B. C.
SASK.
Bigstone
Whitecourt
West Whitecourt
Edson
EDMONTON
Buck Lake
Brazeau River
Rimbey
RED DEER
Nevis
Trans-Canada
Strachan
Wimborne
Saskatchewan Power Corp.
Morrin-Ghostpine
Burnt Timber
Cessford
CALGARY
A.G.T.L. SYSTEM MAP
ALBERTA
Trans Canada Pipe Lines Ltd.
Quirk Creek
Medicine Hat-Roseglen
Pipeline Size
Prior to 1971
1971 Expansion
42″
30″-36″
20″-26″
18″ & Under
Compressor Units
Major Gas Plants
Marten Hills
LETHBRIDGE
Alberta Natural Gas Company Ltd.
Waterton
U. S. A.

Operations

Once again a record was set for maximum calendar day throughput, when on December 26, 1971, a volume of 4,701 million cubic feet of gas moved through the Company's system. The highest daily throughput recorded during 1970 was 4,337 million cubic feet.

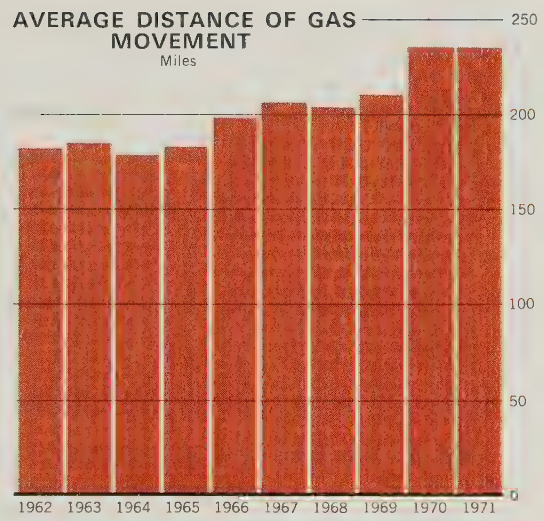
The total volume of gas transported during the year was 1,435,735 million cubic feet, compared with 1,259,337 million in 1970, for an increase of 14%. In terms of averages, 1971 throughput was equivalent to 3,934 million cubic feet per day, compared with 3,450 million per day in 1970.

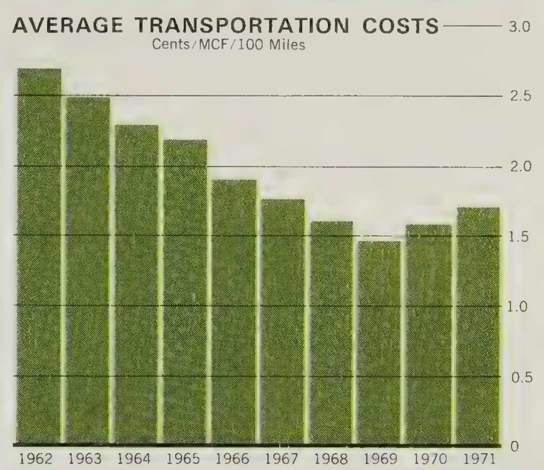
These figures indicate that during 1972 the average daily throughput will exceed 4,000 million cubic feet per day, a level which represents a doubling of the volumes carried during 1967.

The average distance of gas movement by the Company did not increase as significantly during 1971 as it had in the previous year, but the normal pattern has been that a large increase is followed by a small one, then by a slight reduction.

Following a thorough review by the Operations Division, the Company decided to decrease its involvement in supplying housing to employees in the field. The Company offered to sell to employees all of its houses which are in or near established communities. By early in 1972, arrangements had been made to sell 97 of the 104 houses in this category to employees. Two continue to be rented by the present tenant-employees. The other houses have been sold on the public market.

The Company continues to own 32 houses which are furnished to employees in remote areas.





W. J. Deyell, Vice-President
T. N. Befus, Field Operations Superintendent
C. T. McCall, Pipeline Superintendent
D. C. Kesteven, Supervising Engineer

Environment

J. F. Wong, Manager, Administrative Services
R. J. Abercrombie, Vice-President
J. C. Osler, Director, Public Relations

Although concern about protection of the environment in pipeline construction and operation has only recently become general, Alberta Gas Trunk has a long and well-documented record of practice reflecting a high priority on the protection of soil, vegetation and other elements of the environment.

Alberta Gas Trunk was the first company in Canada to introduce topsoil conservation in pipeline construction. The Company exercises special caution in all river-crossing operations. When constructing lines through forestry areas, rights-of-way are always reseeded. Operating lines are regularly patrolled and inspected for any signs of irregularities.

These measures and others are designed to further a continuing corporate objective. The only changes of policy contemplated are those that may be expected from the ongoing efforts to find means of raising established standards.

Pipeline construction near Millarville on the Foothills Mainline in September, 1970.

The same scene with terrain restored 12 months later.

Gas Arctic Systems

During 1971 the Gas Arctic Systems Study Group completed its first full year as an entity, and membership in the group increased from four companies to six. The enlarged group has been able to press more rapidly than ever towards the immediate goal of application to the regulatory authorities. The receipt of analyzed results from the group's widespread research activities, conducted over the past two years, will represent substantial completion of the research and engineering work prerequisite to an application.

Early in the year, Canadian National Railways joined the group as co-sponsor with Alberta Gas Trunk of the Canadian portion of the proposed pipeline system from Prudhoe Bay, Alaska, to the natural gas demand centres of the continent. The professional manpower of this company and its expertise in northern operations, as well as in transportation generally, comprise an asset whose value to the group's objectives is substantial.

Norman Wells test facility.

During the summer, Pacific Lighting Gas Development Company, Los Angeles, joined the three original United States participants as a member of the group. (The others are The Columbia Gas System Inc., Northern Natural Gas Company and Texas Eastern Transmission Corporation.) This means that the interests of most major market areas of both Canada and the United States are now represented within the group.

Cleaning trokler tubes at Norman Wells

During the year the construction and design engineering for the line continued apace, and an important research step was taken with the start-up of three test facilities, located at Prudhoe Bay, Alaska, Norman Wells, N.W.T., and Nordegg, Alberta. Analysis of the test results obtained from the operation of these facilities is expected to provide the knowledge necessary to the planning of pipeline construction in various Arctic soil and climatic conditions.

Gas Arctic Systems (Continued)

Gas Arctic has also carried out a preliminary study of the problems that would be encountered in the construction of a pipeline across the channels between the Arctic islands to carry the gas discovered by Panarctic Oils Ltd.

Prompted by indications during 1971 of substantial gas reserves in the Mackenzie Delta area, Gas Arctic has made a first assessment of the economics of a pipeline to connect the Richards Island area to the mainland.

The autonomous Environment Protection Board sponsored by Gas Arctic has submitted a preliminary report on the results of its investigations and the group is encouraged by this report to believe that none of the environment and ecology problems to be encountered in the construction and operation of an Arctic pipeline is insoluble. The report also suggests that much potential disruption of the ecology can be avoided and that the actual disruption can be kept to a tolerable minimum.

G. W. Walker, Vice-President
D. E. Fielder, Supervising Engineer
N. W. Gellibrand, Engineer

Prudhoe Bay test facility.

The purchase by Alberta Gas Trunk of 297 miles of the Peace River Oil Pipe Line Co. Ltd. main line, explained elsewhere in this report, is another item of significance in the progress towards Gas Arctic's objectives, since it extends the right-of-way available for the Gas Arctic line to within 70 miles of the Alberta-Northwest Territories border.

The year 1972 is expected to be critical in the development of the Gas Arctic proposal, since much of the pre-application work will be completed and correlated. There will probably be some acceleration of the process of rationalizing the situation which has developed as a result of alternative proposals having been made by others.

During the year Alberta Gas Trunk and Canadian National received from Pipeline Engineering and Management Services of Canada (PEMCAN) the results of a study into the practicability of a transportation corridor along the Mackenzie River. The report was highly favourable with respect to the study area, which extended from Fort Simpson to Norman Wells, and a further study is being considered which would define the potential corridor further northward to the lower reaches of the river.

Financial

(Figures in parentheses are for 1970, and have been restated from those previously reported to reflect the revision in rate of return.)

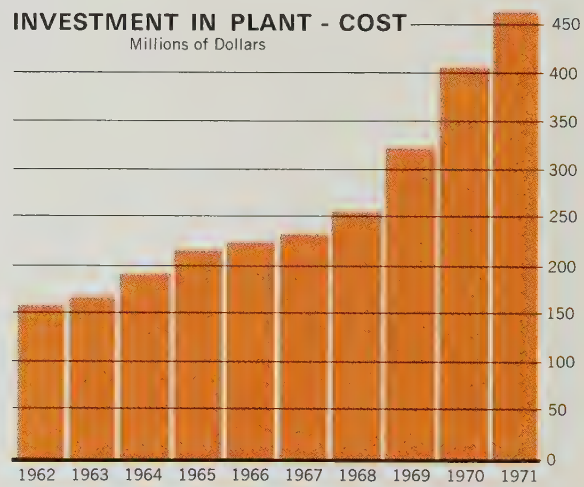
Operating revenues for the year were $56,351,000 ($45,469,000) and the operating profit or annual return of $29,907,000 ($23,970,000) was earned on an average rate base of $355,159,000 ($294,766,000).

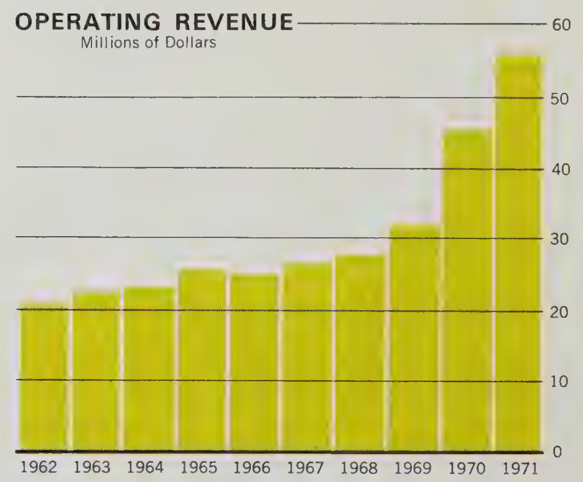
Net income for the year was $11,399,000 ($9,982,000) before providing $1,826,000 ($2,143,000) for preferred dividends. Net income applicable to common shares was $9,573,000 ($7,839,000). Net income per common share was $2.63 ($2.35) on average shares outstanding. Dividends totalling $1.50 ($1.50) per common share were paid. Included in net income is a gain of $469,000 ($504,000) realized on the purchase in the market of First Mortgage Bonds and Secured Debentures for sinking fund purposes.

During the year the Company continued to obtain some funds in the money market by issuing short term notes, the total of which reached, on occasion, a maximum of $30 million.

Long term financing for the 1971 expansion program included the issue of 510,900 Class "A" common shares through the distribution of rights to the Class "A" common shareholders of record on September 9, 1971. The shares were sold at $41 per share and 97% of the rights were exercised. The unsubscribed shares were purchased by the Company's underwriters. This financing produced $20,400,000 net to the Company. Additional long term funds were obtained by the issue of $50 million of 8% Sinking Fund Debentures, Series 4.

The transportation contracts with the Company's customers, Trans-Canada Pipe Lines Limited, Alberta and Southern Gas Co. Ltd., Westcoast Transmission Company Limited, Westcoast Transmission Company (Alberta) Ltd. and Consolidated Natural Gas Limited, provide that the Company will be paid transportation charges on a cost of service basis which includes the Company's operating expenses, income and other taxes and depreciation of its pipeline and plant facilities, together with an annual return on the rate base, which is composed of the depreciated investment in plant and an allowance for working capital. Small volumes of gas are transported for other customers on a tariff basis. Financing costs, inte-

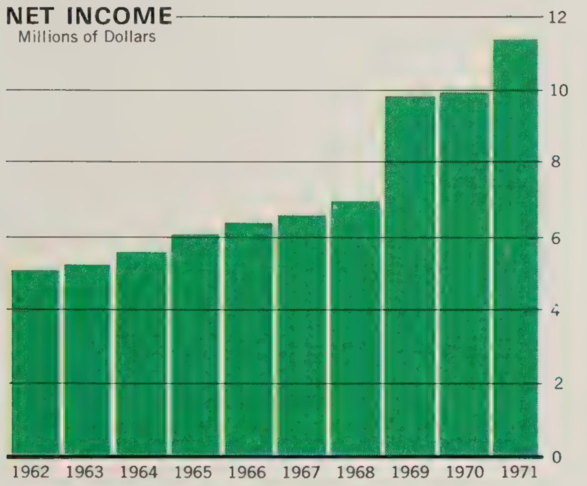


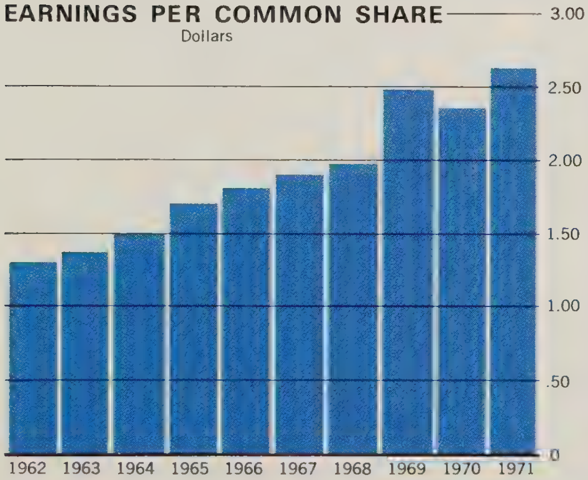


rest on debt and dividends on preferred and common shares are payable from the annual return.

The service agreement entered into with Consolidated Natural Gas Limited on October 20, 1970 became effective on May 21, 1971. Transportation of gas under this agreement commenced on November 1, 1971.


F. A. R. McKinnon, Treasurer
William Zboroluk, Manager, Rate Administration
W. J. Hopson, Vice-President and Secretary
Adrian Smith, Comptroller





By decision dated May 25, 1971 the Public Utilities Board of Alberta varied the rate of return charged by the Company from 8¾% to 8¼% effective from July 1, 1970 to June 30, 1971. This revision had the effect of reducing 1970 net income as previously reported by $835,000. The Company fixed an annual rate of return of 8¼% effective from July 1, 1971 to August 31, 1971 and increased this rate of return to 8¾% effective September 1, 1971.

At the end of the year under review, the Company had 22,181 shareholders who owned 4,093,178 Class "A" common shares. Of these 21,572 or 97% were resident in Canada and held 4,015,492 shares, being 98% of the total.

As required by the Company's Incorporating Act 1,769 of the 1,771 Class "B" common shares outstanding at December 31, 1970 were repurchased during the year and 1,696 shares were

issued. There were 1,698 shares outstanding at the year end owned by 96 shareholders.

At the year end 338,877 preferred shares were outstanding and were owned by 8,833 shareholders. Of these 8,766 were Canadian residents holding 337,462 shares, being 99% of that total.

The decrease in outstanding preferred shares is due to the conversion of 66,442 5⅜% Cumulative Redeemable Convertible Preferred Shares Series D, and the purchase and cancellation of 10,747 4¾% Cumulative Redeemable Preferred Shares Series C, in accordance with the Purchase Fund provisions attaching to these preferred shares.

The Income Tax Act provides that beginning January 1, 1972, gains and losses on the sale or disposal of shares and securities will be taken into account when computing income of all taxpayers.

To determine the gain or loss, all publicly traded shares were valued on Valuation Day, December 22, 1971. The value assigned to each of the Company's publicly traded shares is:

Class "A" common shares	$ 49.75
4¾% Cumulative Redeemable Preferred Shares Series C	$ 76.00
5⅜% Cumulative Redeemable Convertible Preferred Shares Series D	$138.00

Auditors' Report

TO THE SHAREHOLDERS OF
THE ALBERTA GAS TRUNK LINE COMPANY LIMITED

We have examined the balance sheet of The Alberta Gas Trunk Line Company Limited as at December 31, 1971 and the statements of income, reinvested earnings, contributed surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1971 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada.
February 10, 1972.

Clarkson, Gordon & Co
Chartered Accountants

Statement of Income

	Year ended December 31	
	1971	**1970**
Operating revenue:		
Transportation of gas (Notes 1 and 2)	$ 56,351,000	$ 45,469,000
Operating revenue deductions:		
Operating and maintenance expenses	12,812,000	10,886,000
Depreciation (Note 1)	10,282,000	8,090,000
Taxes - property	3,350,000	2,523,000
	26,444,000	21,499,000
Operating profit	29,907,000	23,970,000
Other income:		
Interest on short term deposits	203,000	736,000
Gain on redemption of long term debt	469,000	504,000
Allowance for funds used during construction	1,027,000	1,248,000
	31,606,000	26,458,000
Income deductions:		
Interest on long term debt	18,602,000	15,073,000
Other interest	1,215,000	1,083,000
Amortization of debt discount and expense	390,000	320,000
	20,207,000	16,476,000
Net income for the year (Notes 1, 2 and 6)	$ 11,399,000	$ 9,982,000
Earnings per common share	$2.63	$2.35
Fully diluted earnings per common share	$2.54	$2.29

Statement of Reinvested Earnings

	Year ended December 31	
	1971	**1970**
Balance at beginning of year		
As previously reported	$ 21,833,000	$ 18,187,000
Adjustment of prior year's net income (Note 2)	835,000	
As restated	20,998,000	
Net income for the year	11,399,000	9,982,000
	32,397,000	28,169,000
Less dividends paid or payable		
Preferred shares	1,826,000	2,143,000
Common shares	5,648,000	5,028,000
	7,474,000	7,171,000
Balance at end of year	$ 24,923,000	$ 20,998,000

See accompanying notes to financial statements.

The
Alberta Gas Trunk Line
Company Limited

Balance Sheet

Assets

	December 31	
	1971	**1970**
Plant, Property and Equipment – at cost (Note 1):		
Gas plant in service (land, buildings, gas transmission system equipment, motor vehicles, etc.)	$441,132,000	$401,162,000
Less accumulated depreciation	65,139,000	55,619,000
	375,993,000	345,543,000
Gas plant under construction	22,629,000	2,841,000
	398,622,000	348,384,000
Current Assets:		
Cash and short term deposits	11,828,000	2,666,000
Accounts receivable	7,952,000	5,559,000
Materials and supplies at cost	2,886,000	2,547,000
Prepaid expenses	161,000	94,000
	22,827,000	10,866,000
Other:		
Unamortized debt discount and expense	5,020,000	4,327,000
Gas Arctic expenditures (Note 3)	1,582,000	
Sundry assets	1,595,000	239,000
	8,197,000	4,566,000
	$429,646,000	$363,816,000

On behalf of the Board:

Director.

Director.

See accompanying notes to financial statements.

Liabilities

	December 31 1971	December 31 1970
Shareholders' Equity:		
Capital (Note 4)		
Authorized –		
2,000,000 Preferred Shares of the par value of $100 each with no voting rights attached		
8,000,000 Class "A" common shares of the par value of $5 each with no voting rights attached		
2,002 Class "B" common shares of the par value of $5 each with voting rights attached		
Issued for cash and fully paid –		
231,799 4¾% Cumulative Redeemable Preferred Shares Series C . . . . 1970 – 242,546 shares	$ 23,180,000	$ 24,255,000
107,078 5⅜% Cumulative Redeemable Convertible Preferred Shares Series D . . . . 1970 – 173,520 shares	10,708,000	17,352,000
4,093,178 Class "A" common shares . . . . 1970 – 3,372,232 shares	20,466,000	16,861,000
1,698 Class "B" common shares . . . . 1970 – 1,771 shares	9,000	9,000
	54,363,000	58,477,000
Contributed surplus	41,110,000	16,463,000
Reinvested earnings	24,923,000	20,998,000
	120,396,000	95,938,000
Long Term Debt (Note 5)	292,013,000	251,316,000
Current Liabilities:		
Accounts payable	3,198,000	4,346,000
Dividends payable February 15	1,954,000	1,788,000
Interest accrued on long term debt	4,552,000	4,478,000
Sinking fund instalments due within one year	7,533,000	5,950,000
	17,237,000	16,562,000
	$429,646,000	$363,816,000

Statement of Source and Application of Funds

	Year ended December 31	
	1971	**1970**
Source of funds:		
Funds provided from internal sources		
Net income for the year	$ 11,399,000	$ 9,982,000
Charges against income not requiring an outlay of cash		
Depreciation	10,282,000	8,090,000
Amortization of debt discount and expense	390,000	320,000
Received under settlement agreements	372,000	949,000
	22,443,000	19,341,000
New money provided		
Common shares	20,946,000	
Sinking fund debentures	50,000,000	73,000,000
First mortgage bonds		48,237,000
	$ 93,389,000	$140,578,000
Application of funds:		
Dividends		
Preferred shares	$ 1,826,000	$ 2,143,000
Common shares	5,648,000	5,028,000
	7,474,000	7,171,000
Additions to plant, property and equipment	60,892,000	82,808,000
Retirement of long term debt	8,337,000	5,950,000
Decrease in bank loans and short term notes		40,945,000
Cost of issuing securities	1,637,000	2,442,000
Purchase for cancellation of preferred shares	825,000	825,000
Gas Arctic expenditures	1,582,000	
Sundry assets	1,356,000	269,000
Working capital increase	11,286,000	168,000
	$ 93,389,000	$140,578,000

Statement of Contributed Surplus

	Year ended December 31	
	1971	**1970**
Balance at beginning of year	$ 16,463,000	$ 14,620,000
Premium on issue of capital stock (Note 4)	24,951,000	1,533,000
Gain on purchase for cancellation of preferred shares (Note 4)	250,000	340,000
Capital stock issue expenses written off	(554,000)	(30,000)
Balance at end of year	$ 41,110,000	$ 16,463,000

See accompanying notes to financial statements.

Notes to Financial Statements

December 31, 1971

1. Plant, property and equipment

Gas plant in service consists of facilities for the transportation of gas owned by Trans-Canada Pipe Lines Limited, Alberta and Southern Gas Co. Ltd., Westcoast Transmission Company Limited, Westcoast Transmission Company (Alberta) Ltd., Consolidated Natural Gas Limited and others.

The transportation contracts with the above-named owners provide that the Company will be paid transportation charges on a cost of service basis which includes operating expenses, income and other taxes (see Note 6) and depreciation of its facilities together with an annual return on its investment (see Note 2). Depreciation of gas plant in service has been provided in an amount equal to depreciation included in the transportation charges, mainly 2½% per annum on a straight line basis.

The cost of construction of additional facilities during 1972 is estimated at $50,000,000.

2. Rate of return and restatement of figures

The Company's rate of return included in its transportation charges, initially fixed at 7½% per annum on its net investment rate base, was increased to an effective rate of 8% commencing with the calendar year 1969. The Company fixed a rate of 8¾% effective July 1, 1970. By decision dated May 25, 1971 the Public Utilities Board of Alberta varied the rate from 8¾% to 8¼% effective from July 1, 1970 to June 30, 1971. The Company fixed an annual rate of return of 8¼% effective from July 1, 1971 to August 31, 1971 and fixed an annual rate of return of 8¾% effective September 1, 1971.

The financial statements for the year ended December 31, 1970 have been restated from those previously reported by the Company to reflect the revision in the rate of return for the six months ended December 31, 1970. Such revision had the effect of reducing net income as previously reported for the year ended December 31, 1970 by $835,000 (25¢ per common share).

3. Gas Arctic expenditures

The Company, together with Canadian National Railway Company and four United States gas distribution companies, is participating in the sponsorship of a gas pipe line from Alaska and the Arctic. The Company's share of expenditures amounted to $1,582,000 at December 31, 1971 and it is estimated that the Company's share of such expenditures will amount to approximately $3,000,000 at December 31, 1972. Recovery of the expenditures is dependent on the Company's ultimate participation in the transportation of gas.

4. Capital

720,946 Class "A" common shares were issued during the year as follows:

	Shares
Pursuant to a Rights Offering dated October 15, 1971	510,900
On conversion of 66,442 5⅜% Preferred Shares Series D	185,896
On conversion of $966,000 principal amount of 7½% Sinking Fund Debentures, Series 1	24,150
	720,946

Of the total consideration received $3,605,000 was credited to share capital and $24,951,000 to contributed surplus.

The Company is required to set aside on its books as a Purchase Fund $825,000 annually (or such lesser amount as would increase the fund to a maximum of $1,650,000) for the purchase for cancellation of its 4¾% Cumulative Redeemable Preferred Shares Series C, if and when available, at a price not in excess of the par value and costs of purchase, or for the redemption thereof. $1,075,000 par value Preferred Shares Series C were purchased for cancellation at a cost of $825,000 during 1971. The gain of $250,000 has been credited to contributed surplus. The Preferred Shares Series C are redeemable at the option of the Company at $104 per share on or before May 15, 1975 and thereafter at reducing amounts.

Commencing January 2, 1971, the Company is required to set aside on its books as a Purchase Fund $600,000 annually (or, commencing in 1973, such lesser amount as would increase the fund to a maximum of $1,200,000) for the purchase for cancellation of its 5⅜% Cumulative Redeemable Convertible Preferred Shares Series D, if and when available, at a price not in excess of the par value and costs of purchase, or for the redemption thereof. No Preferred Shares Series D were purchased for cancellation during 1971. The Preferred Shares Series D are redeemable at the option of the Company at $106 per share on or before May 15, 1980 and thereafter at reducing amounts.

Pursuant to The Alberta Gas Trunk Line Company Act 1,769 Class "B" common shares outstanding at December 31, 1970 were repurchased during the year and 1,696 Class "B" shares were issued.

Class "A" common shares were reserved at December 31, 1971 as follows:

	Shares
For conversion of the 5⅜% Cumulative Redeemable Convertible Preferred Shares Series D until July 15, 1980 on an initial conversion basis of 2.80 Class "A" common shares for each preferred share converted	299,966
For conversion of the 7½% Convertible Sinking Fund Debentures, Series 1 until July 15, 1982, on an initial conversion basis of 25 common shares for each $1,000 principal amount of Series 1 Debentures	850,700
Under an Incentive Stock Option Plan	48,900
Options are outstanding to officers and employees to purchase 10,500 shares at a price of $35.50 per share and 2,000 shares at a price of $45.50 per share, exercisable in annual instalments on a cumulative basis from 1972 to 1976.	
36,400 shares remain reserved under the Plan but unallocated.	
For the exercise of an option outstanding to an officer of the Company to purchase shares at a price of $39 per share, exercisable to a maximum of 2,000 shares annually on a cumulative basis from January 1, 1971 and expiring on December 31, 1980. No shares have been purchased under this option	10,000
	1,209,566

5. Long term debt

Details of the Company's long term debt are as follows:

	Maturity	1971	1970
First Mortgage Bonds			
5¼% Series A	1981	$ 18,533,000	$ 20,157,000
5¾% Series B (1971 – $43,887,000 U.S. 1970 – $47,011,000 U.S.)	1981	43,887,000	47,011,000
5½% Series C	1985	15,324,000	16,048,000
8¾% Series D ($60,000,000 U.S.)	1989	64,395,000	64,395,000
Secured Debentures			
6½% Series A	1981	12,502,000	13,134,000
5¾% Series B	1985	22,877,000	23,527,000
Unsecured Debentures			
7½% Series 1 (Convertible)	1990	34,028,000	34,994,000
9¾% Series 2	1990	20,000,000	20,000,000
9¼% Series 3	1990	18,000,000	18,000,000
8% Series 4	1991	50,000,000	
		299,546,000	257,266,000
Less sinking fund instalments due within one year shown as current liability		7,533,000	5,950,000
		$292,013,000	$251,316,000

The 5¾% First Mortgage Sinking Fund Bonds, Series B are payable in United States funds. The Company will receive under its transportation contract with Alberta and Southern Gas Co. Ltd. and Westcoast Transmission Company Limited (see Note 1) sufficient United States dollars to discharge its future principal and interest payments in connection with the Series B bonds. Accordingly, the principal amount of the bonds has been, and future revenue receipts and interest payments in United States dollars will be translated to Canadian dollars on the basis that one United States dollar is equal to one Canadian dollar.

Trans-Canada Pipe Lines Limited and Alberta and Southern Gas Co. Ltd. have agreed that losses or gains experienced by the Company in purchasing United States dollars to meet principal and interest payments of the First Mortgage Bonds, Series D at rates above or below the rates at which the entire issue was converted into Canadian dollars will be for their account.

Sinking fund requirements in respect of long term debt for the years 1973 to 1976 are: 1973 – $9,352,000; 1974 – $10,006,000; 1975 – $10,561,000; 1976 – $11,159,000.

6. Income taxes

For income tax purposes the Company claims capital cost allowances and other deductions in excess of the related amounts charged against income in the accounts, thus no income taxes have been paid since inception of the Company (except for $7,350 in respect of 1966) and no liability for income taxes exists at December 31, 1971. Accordingly, under the taxes payable basis of accounting followed by the Company no provision for income taxes has been recorded in the accounts. This accounting treatment differs from the tax allocation basis under which the income tax provision is based on income reported in the accounts. If the tax allocation basis had been followed in current and prior years the cumulative amount of deferred tax credits would have been approximately $41,500,000 to December 31, 1971 of which $5,500,000 is applicable to 1971 and $5,000,000 to 1970. The method used by the Company is acceptable in the circumstances since income taxes associated with the Company's operations under its transportation contracts are a component of the transportation charges (see Note 1) and will be included in such charges in subsequent periods.

7. Remuneration of directors and senior officers

The aggregate direct remuneration paid during the year to directors was $26,000 and to senior officers was $222,000.

The
Alberta Gas Trunk Line
Company Limited

Ten Year Review

FINANCIAL

(in thousands of dollars except per share amounts and rate of return percentages). The 1970 figures have been restated from those previously reported to reflect revision in rate of return.

	1971	1970
Operating revenues	$ 56,351	45,469
Operating expenses, depreciation and taxes	$ 26,444	21,499
Operating profit	$ 29,907	23,970
Interest expense – net	$ 18,508	13,988
Net income	$ 11,399	9,982
Dividends on preferred shares	$ 1,826	2,143
Net income applicable to common shares	$ 9,573	7,839
Net income per common share		
On average shares outstanding	$ 2.63	2.35
On fully diluted basis	$ 2.54	2.29
Dividends paid per common share	$ 1.50	1.50
Average common shares outstanding during year (thousands)	3,646	3,342
Working capital (deficiency)	$ 5,590	(5,696)
Additions to plant, property and equipment	$ 60,892	82,808
Investment in plant, property and equipment (cost)	$463,761	404,003
Investment in plant, property and equipment (net)	$398,622	348,384
Bank loans and short term notes		
Long term debt (less due within one year)	$292,013	251,316
Shareholders' equity		
Preferred shares	$ 33,888	41,607
Common share equity	$ 86,508	54,331
Average rate base	$355,159	294,766
Average rate of return	8.42%	8.13%

STATISTICAL

	1971	1970
Shareholders and employees		
Number of preferred shareholders	8,833	10,385
Number of common shareholders	22,277	21,838
Number of employees	701	577

OPERATING

	1971	1970
Miles of pipeline in service	3,493	3,246
Compression horsepower	315,035	280,555
Annual throughput (MMcf)	1,435,735	1,259,337
Maximum day throughput (MMcf)	4,701	4,337
Average day throughput (MMcf)	3,934	3,450

1969	1968	1967	1966	1965	1964	1963	1962
31,930	27,929	26,309	24,976	25,511	23,417	22,467	21,015
14,926	13,087	12,037	10,823	12,354	11,440	11,077	9,800
17,004	14,842	14,272	14,153	13,157	11,977	11,390	11,215
7,184	7,892	7,692	7,815	7,106	6,404	6,187	6,157
9,820	6,950	6,580	6,338	6,051	5,573	5,203	5,058
2,280	1,495	1,306	1,306	1,397	1,512	1,513	1,513
7,540	5,455	5,274	5,032	4,654	4,061	3,690	3,545
2.47	1.95	1.88	1.80	1.71	1.50	1.36	1.31
2.39							
1.50	1.41	1.23	1.20	1.15	1.00	1.00	0.25
3,056	2,802	2,800	2,792	2,720	2,715	2,710	2,705
(5,864)	(5,078)	(3,570)	(2,637)	1,897	(1,807)	(655)	727
68,251	23,132	11,309	7,703	23,521	25,845	8,379	8,220
21,611	254,046	231,155	223,833	216,319	192,896	167,018	158,731
74,615	214,154	197,030	191,443	189,351	173,207	154,115	152,143
40,945	6,500	7,800			22,700	2,700	
36,035	125,524	130,884	135,973	140,802	101,028	104,566	107,926
44,548	46,475	27,500	27,500	27,500	25,000	25,000	25,000
49,428	33,808	30,420	28,638	26,413	25,810	24,446	23,326
12,550	197,800	190,293	188,702	175,424	159,688	151,864	149,529
8.00%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
10,781	11,087	3,172	3,254	3,214	8,457	8,805	9,304
22,543	23,452	24,833	26,007	26,782	28,251	29,718	30,213
442	322	301	290	278	290	294	267
2,778	2,198	2,094	2,003	1,945	1,765	1,560	1,492
186,630	55,620	55,620	40,395	24,895	24,895	22,865	10,200
047,780	873,254	740,905	678,180	636,876	578,773	496,528	430,331
3,650	3,094	2,757	2,242	2,058	1,993	1,749	1,451
2,870	2,392	2,029	1,858	1,744	1,585	1,360	1,178

ALCRAFT · CALGARY
LITHOGRAPHED IN CANADA

The
Alberta Gas Trunk Line
Company Limited

Annual Report 1971

42-inch pipe stored at the Calgary Service Centre prior to use in the Company's service expansion program.

Report to Shareholders

This regular six month report follows a Special Report published on June 28. The Special Report described the Company's intentions for setting future charges for its gas transmission services. Negotiations have been pursued during July and continue in August. We expect to report progress on this very important business by September.

When adjusted to implement the decision of the Alberta Public Utilities Board rendered on May 25, the Company's net income for the first six months of 1971 was $5,258,000. After providing $1,001,000 for dividends on preferred shares, net income available for common shares for the period was $4,257,000, equivalent to $1.25 per share on average shares outstanding.

A comparative summary of financial results for the first six months of 1971 and of 1970 is provided in the accompanying statements.

The Company's 1971 service expansion program is now committed to the extent of approximately $75 million, of which about $11 million was expended to June 30, with most of the remainder to be spent by the end of September. The latest commitment within this program has been the Company's agreement to purchase for conversion to gas transmission service a 297 mile northern pipeline extension built in 1968 by Peace River Oil Pipe Line Co. Ltd.

The initial effect of this arrangement will be to make the Company's gas gathering and transmission services available, starting in 1972, for the connection of gas supply sources within an area running some 100 miles east to west and 300 miles south to north, up to the northwestern corner of Alberta. Several trillion cubic feet of gas reserves have been proven in gas fields within this area in past years. Production of gas from some of these fields can be commenced promptly and it is expected that bringing this whole area into economic reach of pipeline connection will encourage development drilling around other known gas strikes.

From a long range point of view, this extension of the Company's systems northward along the central axis of the Western Canadian sedimentary basin can also be fitted in with our objectives for participation in the new Arctic gas artery which is being proposed by Gas Arctic Systems Study Group.

As the first step in arranging long term financing for the 1971 expansion program, the Company is proceeding with an issue of Class "A" common shares to be offered during the month of September through the prior distribution of rights to those who hold Class "A" common shares on a record date of September 9, 1971.

J. R. Blair

President and Chief Executive Officer

August 6, 1971
Calgary, Alberta

The
Alberta Gas Trunk Line
Company Limited

Statement of Income

	Six months ended June 30	
	1971	1970
Operating revenue	$ 27,578,000	$ 21,461,000
Operating revenue deductions		
Operating and maintenance expenses	6,408,000	5,172,000
Depreciation	5,141,000	4,045,000
Taxes – property	1,600,000	1,101,000
	13,149,000	10,318,000
Operating profit	14,429,000	11,143,000
Interest and other income deductions – net	9,171,000	6,031,000
Net income	5,258,000	5,112,000
Dividends on preferred shares	1,001,000	1,098,000
Net income applicable to common shares	$ 4,257,000	$ 4,014,000
Net income per common share		
On average shares outstanding	$1.25	$1.21
On fully diluted basis	$1.23	$1.17
Dividends paid per common share	75¢	75¢
Average common shares outstanding	3,398,000	3,325,000
OTHER KEY DATA		
Additions to plant	$ 11,207,000	$ 38,522,000
Investment in plant (cost)	$414,880,000	$359,783,000
Investment in plant (net)	$354,294,000	$308,346,000
Miles of pipeline in service	3,270	2,964
Compression BHP	280,555	187,730
Throughput (MMcf)	725,592	622,939
Maximum day throughput (MMcf)	4,411	3,742

The financial statements in this report are prepared from the records of the Company without audit.

Statement of Source and Application of Funds

	Six months ended June 30	
	1971	1970
Source of funds:		
Funds provided from internal sources		
Net income for the period	$ 5,258,000	$ 5,112,000
Non-cash charges against income, etc.	5,487,000	4,937,000
	10,745,000	10,049,000
Bonds and debentures		103,237,000
Increase (decrease) in bank loans and short term notes	13,371,000	(40,645,000)
	13,371,000	62,592,000
	24,116,000	72,641,000
Application of funds:		
Additions to plant	11,207,000	38,522,000
Long term debt included in current liabilities	6,270,000	5,950,000
Redemption of preferred shares Series C	523,000	364,000
Cost of issuing securities	10,000	2,010,000
Investments, advances and deferred charges	1,053,000	22,000
Dividends on preferred and common shares	3,566,000	3,596,000
	22,629,000	50,464,000
Increase in working capital	1,487,000	22,177,000
Working capital (deficiency) at beginning of period	(5,696,000)	(5,864,000)
Working capital (deficiency) at end of period	$ (4,209,000)	$ 16,313,000

AR03

ALCRAFT • CALGARY
LITHOGRAPHED IN CANADA

(1)

The
Alberta Gas Trunk Line
Company Limited

INTERIM REPORT
To Shareholders

For Six Months Ended
JUNE 30, 1971